

Message Text

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PAGE 01 OTTAWA 02801 252156Z

16

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 FAA-00 L-03 H-02 SS-15 NSC-05

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TO SECSTATE WASHDC 7082

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POUCHED TO ALL CONSULS IN CANADA

E.O. 11652: N/A

TAGS: EAIR, CA

SUBJECT: CIVAIR: AIR CANADA INQUIRY ENDS

REF: OTTAWA 1460, PARA. 4

1. AFTER TWO AND ONE HALF MONTHS OF HEARINGS THE GOC'S SPECIAL COMMISSION OF INQUIRY, DIRECTED BY ONTARIO CHIEF JUSTICE WILLARD ESTEY, CONCLUDED ITS PUBLIC PROCEEDINGS ON JULY 24. THE COMMISSION WAS ESTABLISHED TO INVESTIGATE CERTAIN FINANCIAL MANAGEMENT PRACTICES OF THE AIRLINE IN THE WAKE OF REVELATION THAT A VICE PRESIDENT HAD RESIGNED IN CONFLICT OF INTEREST CIRCUMSTANCES. THE ESTEY REPORT IS NOT EXPECTED FOR AT LEAST SEVERAL WEEKS.

2. THE HEARINGS AIRED A WIDE VARIETY OF CARRIER PRACTICES, INCLUDING ITS EFFORTS TO GET INTO THE TRAVEL AGENCY BUSINESS FROM WHICH IT IS PRECLUDED BY PRESENT LEGISLATION. NEWSPAPER CLIPPINGS GIVING DETAILS OF SOME OF THE TESTIMONY HAVE BEEN REGULARLY FORWARDED TO STATE (OA, STYLES), CAB (LITTON) AND DOT (FLYNN). EXTENSIVE TV COVERAGE OF THE HEARINGS HAS ALSO TAKEN PLACE.

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PAGE 02 OTTAWA 02801 252156Z

EM COMMENT; SLOWDOWN IN TRAFFIC GROWTH AND HIGH FUEL PRICES HAVE FIGURED PROMINENTLY IN AIR CANADA'S EXPLANATIONS OF ITS 1974 DEFICIT (SEE OTTAWA 0062). IT WOULD NOT BE SURPRISING IF THE ESTEY REPORT INDICATES THAT POOR FINANCIAL CONTROLS HAVE ALSO BEEN A SIGNIFICANT FACTOR.

4. AIR CANADA IS PRESENTLY ORGANIZED AS A SUBSIDIARY OF THE CANADIAN NATIONAL RAILWAY AND HAS BEEN PRESSING FOR SOME YEARS FOR LEGISLATION GIVING IT AN INDEPENDENT STATUS. GOC HAS AGREED IN PRINCIPLE TO THIS, BUT LEGISLATION TO THIS EFFECT HAS NOT YET BEEN INTRODUCED. TCO HAS OBTAINED THE IMPRESSION THAT SUCH LEGISLATION WILL BE SOMEWHAT BROADER. IT WILL PROVIDE NEW MEANS FOR GOC SUPERVISION OF THE CARRIER AND PERMIT ITS DIVERSIFICATION INTO OTHER ACTIVITIES (E.G., POSSIBLY TRAVEL AGENCIES) ON A SIGNIFICANT SCALE. ESTEY REPORT WILL UNDOUBTEDLY INFLUENCE THENATURE OF THAT LEGISLATION.
JOHNSON

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